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21<sup>st</sup> February 2011

Dear Andy

**Ofgem's Proposed Corporate Strategy and Plan 2011-2016**

Thank you for the invitation to contribute to the development of Ofgem's five year strategy for 2011-2016.

You specifically request views upon the issues set out in the consultation document. Whilst we are supportive of the proposed themes in the plan, we have confined our comments to two particular and very important concerns that ENA Members have with the current draft, namely the low priority given to the vital role that gas (including unconventional gas sources) could, given the right environment to develop, play in the future of the energy market and the implementation of the RIIO proposals in the current transmission and gas distribution price reviews.

**The Future Role of Gas**

The UK faces immense challenges in the next 40 years to move towards the decarbonisation of its energy industry. The gas networks are a vital asset to the UK economy, central to securing affordable and low-carbon energy supplies now and in the future. ENA continues to play a major role working with Ofgem and DECC in reviewing the future of energy and new technologies, and, as part of this, commissioned in-depth, independent analysis into the future role of gas in a low-carbon economy, by the respected energy consultants Redpoint.<sup>1</sup>

The report finds that;

- Gas should continue to play a major role in our energy mix and can provide a low-cost, sustainable, secure and flexible solution to our energy and climate change needs.
- It is the cleanest fossil fuel and new supplies being discovered could also be relatively plentiful and low-cost.
- It can enhance diversity of energy supply and provide additional flexibility with respect to energy balancing particularly at times of low renewable output.
- Maintaining existing gas networks is cheaper than other options for meeting the UK's energy needs.

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<sup>1</sup> [Gas Futures Scenarios Project – Final Report](#)

In view of these findings it is both surprising and disappointing that Ofgem does not seem to have acknowledged the need to include future work on gas in the draft Strategy and Plan.

### **Unconventional Gas Sources**

There are also several forms of unconventional sources of gas including biomethane.<sup>2</sup> These sources of gas have the potential to replace natural gas if injected into the gas grid thereby using an otherwise wasted resource to contribute to the UK's low carbon agenda and reduce waste going to landfill.

ENA's Gas Distribution Network members are committed to maximizing the opportunities to use biomethane in the UK and are working with stakeholders, trade associations, Ofgem and Government to progress this and remove any barriers.

Upgrading biogas to biomethane and injecting it into the gas grid represents a more efficient use of the biomass resource than using it to generate electricity.<sup>3</sup> Used as biomethane it can make more than twice the contribution to the UK's renewable energy targets. In addition, it utilises the UK's current gas infrastructure at point of production, which then transports the gas to more than 80% of all homes. This mechanism can therefore deliver renewable energy direct to consumers, which can be used in existing appliances, with no additional costs or action required from them, and no disruption to them.

If biomethane injection into the gas grid is to make a significant contribution to renewable energy it needs to be appropriately incentivised and put onto a level playing field with the generation of electricity from biomass, and a number of barriers to entry for biomethane should be removed. ENA appreciates the steps being undertaken by Ofgem in the RIIO GD1 Price Control, including the measures it is proposing to facilitate the connection of bio-methane and non-renewable forms of distributed gas.

### **Implementation of the RIIO Proposals**

ENA and its members worked closely with Ofgem throughout the RPI-X@20 process and have publicly welcomed many of the initiatives that have been introduced as part of the new RIIO framework for network regulation. We continue to work with Ofgem on the implementation of the RIIO principles in the current price control reviews for transmission and gas distribution.

We believe that the RIIO framework has the potential to deliver real benefits to customers. An important element of this framework is the provision of strong incentives for companies to deliver agreed outputs to help meet the challenge of delivering a sustainable energy sector. The package of incentives will, when taken together with the overall treatment of uncertainty, determine the riskiness of the price control package itself. The financeability framework that is established will need to reflect this.

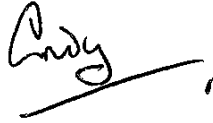
Since January 2010, when Ofgem's proposals on financeability were first published, ENA has raised significant concerns with them both in written submissions to Ofgem and in industry meetings. ENA members believe that the current financeability framework which is now being proposed for the ongoing RIIO - GD1 price reviews will be damaging to the companies, significantly reducing their cash flows and ultimately threatening their ability to finance the investment necessary to deliver the UK's carbon reduction targets.

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<sup>2</sup> which is produced by the decomposition of various organic materials e.g. household refuse, sewage sludge and agricultural waste.  
<sup>3</sup> in the absence of any use for the associated heat

ENA believes that both of these issues are vitally important to the success of the Government's low carbon strategy and therefore look forward to our comments being addressed by Ofgem when the final Corporate Strategy and Plan 2011-2016 is published.

Yours sincerely,

A handwritten signature in black ink that reads "Andy". The signature is written in a cursive style and is followed by a long horizontal line that extends to the right.

Andy Phelps

Director of Regulation

Energy Networks Association

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